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DIRECTORATE OF  
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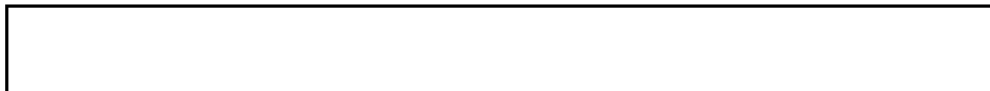
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JAPAN-USSR: On the eve of his visit to China, Prime Minister Tanaka has reminded Moscow of the importance of settling the Northern Territories issue.

Tanaka sent a letter to Brezhnev on Thursday stating Tokyo's desire to conclude a peace treaty, but emphasized the need to resolve Japan's claim to the islands seized by the Soviet Union at the end of World War II. The letter was given to Soviet Party Secretary Ponomarev by the leader of the Japanese parliamentary delegation, which has been visiting the USSR since 7 September.

Ponomarev expressed Moscow's willingness to discuss any problems Japan wishes during talks on a peace treaty, according to a Japanese press report. During a visit to Tokyo last January, Foreign Minister Gromyko indicated Moscow's willingness to discuss the status of the Northern Territories, and there have been several hints since then that the Soviets have been mulling over various compromise proposals. Although the Soviet leaders are anxious to begin peace treaty talks, they are unlikely to satisfy Japanese claims in advance. Even after the negotiations finally get under way, the Soviets will probably be most reluctant to return the islands, unless they can be convinced that this would give a significant and lasting boost to Soviet stock in Japan vis-a-vis the Chinese.

A high Japanese Foreign Ministry official privately confirmed recently that Japan does not intend even to begin discussions with the Russians on a treaty unless Moscow indicates that there is a clear prospect for movement on the Northern Territories issue. Vice Foreign Minister Hogen said that Gromyko has ignored a request by the Japanese ambassador in Moscow for an appointment, during which the latter presumably planned to re-emphasize Tokyo's firm position.

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Moscow recently proposed that the Japanese send a high-ranking official to begin "substantive" negotiations on concluding a peace treaty. Tokyo, upset with Gromyko's actions, has counterproposed that the Soviets instead send a high-ranking official to Tokyo. The Japanese Government apparently does not expect a favorable Soviet response in the near future. Earlier plans to hold preliminary talks in Moscow this month were dropped.

There apparently is growing sentiment in the Foreign Office to delay further discussions of Japanese participation in developing the Tyumen oil fields until Moscow shows a more forthcoming attitude on the Northern Territories issue. Tokyo, cognizant of Moscow's concern over improving Sino-Japanese ties, clearly feels it is in a stronger bargaining position. In view of widespread Japanese suspicions of the Soviet Union, Tokyo is under no great political pressure to improve relations with Moscow. In any case, the problem of building bridges to Peking is of far greater political importance to the Tanaka government at this time.

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SOUTH KOREA - JAPAN: President Pak Chong-hui will make his first state visit to Japan this fall in a personal effort to strengthen Tokyo's commitment to Seoul.

The South Korean leader will seek assurances from the Japanese that they will not expand their contacts with Pyongyang rapidly in a way that would adversely affect South Korean interests. Seoul is concerned about a possible unfavorable shift in Japanese orientation following the Tanaka visit to China. Additional economic assistance to help service Seoul's mounting foreign debt repayments is also high on Pak's list of priorities. Tokyo recently pledged \$170 million to Seoul--considerably less than the South Koreans need and hope to obtain.

The visit will be an opportunity for the Japanese to demonstrate the importance they attach to their relations with Seoul, and Tokyo probably will seal it with promises of additional economic assistance. The Tanaka government, however, is likely to avoid a commitment to limit the extent of its economic and perhaps political dealings with Pyongyang, although the Japanese probably hope that the visit will help allay South Korean concerns. [REDACTED]

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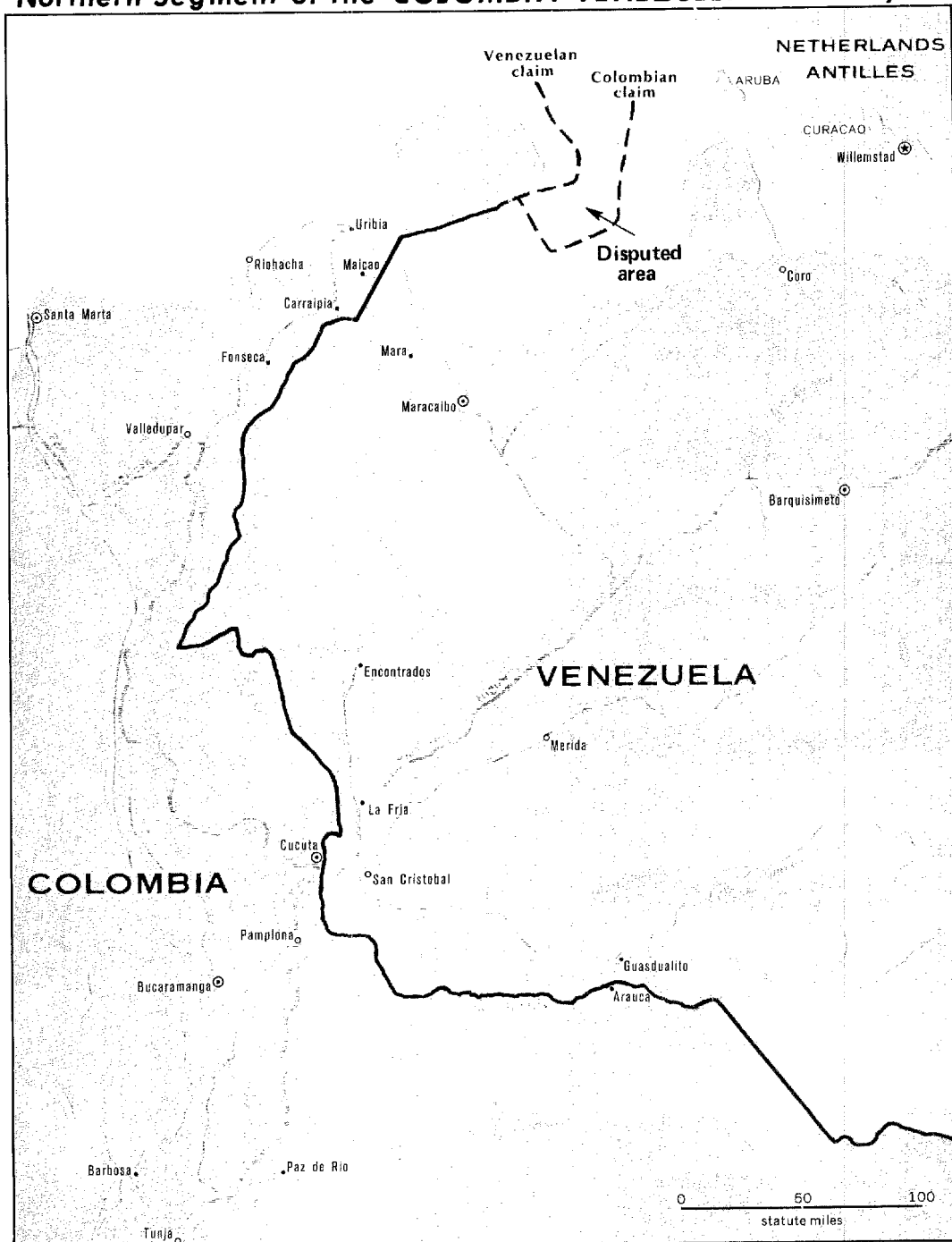
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### Northern Segment of the COLOMBIA-VENEZUELA Boundary



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VENEZUELA-COLOMBIA: Talks will resume in Rome on 4 October on the boundary dispute in the oil-rich Gulf of Venezuela.

The major stumbling block is the definition of the territorial sea and continental shelf boundaries. Caracas maintains the entire gulf is its own inland water, and that the boundary line should be a projection of the land border. Bogota takes the position that the boundary should be drawn into the gulf at a right angle to the northern shore. Both sides believe that the seabed in the disputed area contains substantial oil deposits.

Other irritants on the agenda include the illegal immigration of hundreds of thousands of Colombians whom Venezuela considers a potential fifth column, and substantial contraband operations along the border.

One of the Venezuelan negotiators told a US Embassy official recently that Caracas views this session as crucial because failure now would delay agreement for years because of the coming elections in both countries. During previous sessions, both sides held rigidly to their positions and chances of a settlement this time appear slight.

President Caldera is under heavy pressure from nationalist and military groups to maintain a hard line. A concerted media campaign reportedly will be launched soon to head off any agreement that would give up any of Venezuela's territory or its potential petroleum resources. In this pre-election period, it will be extremely difficult for Caldera to soften Venezuela's position to the extent necessary for agreement with Colombia and, at the same time, retain the military support on which his government depends.

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THE NETHERLANDS: With elections only two months off the prospects of Prime Minister Biesheuvel's coalition are increasingly gloomy.

On the labor front, several hundred Dutch workers have seized a factory in Breda to protest management plans to close several plants and dismiss some 2,200 employees. The workers' unprecedented action won the immediate backing of three national unions and sparked a sympathy strike in a German subsidiary of the same multi-national corporation.

The government, having failed in desultory efforts to head off this long-brewing crisis, has not yet decided on a suitable response. The Liberal (conservative) minister of economic affairs has criticized the workers' action, while the Anti-Revolutionary Party (ARP) minister of social affairs has termed the union position regrettable but understandable. The ARP and the two additional confessional parties, which together with the Liberals comprise the governing coalition, will be hesitant to accede to anticipated Liberal demands for further government intervention. The confessionals are mindful of the possibility of a post-election coalition with the Labor Party and are thus reluctant to antagonize the left.

Meanwhile, a dispute in the Defense Ministry has provided the opposition with additional ammunition should they choose to exploit it. Defense State Secretary Van Es resigned on 15 September in a disagreement with Defense Minister De Koster over organizational matters. Although the controversy primarily reflects personal rather than party differences, it further tarnishes the government's image and makes the controversial subject of defense policy increasingly vulnerable to politically inspired forays.

Both incidents point up the increasing disarray within Biesheuvel's coalition. In its weakened condition the government can expect to achieve

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little more than the caretaker status the opposition demanded it assume last month. The price of government impotence, however, is continued economic malaise and the consequent disaffection of more Dutch voters. Barring an [REDACTED] adroit performance by Biesheuvel during the coming months, the widely anticipated turn to the left in November could prove still sharper. [REDACTED]

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BRITISH HONDURAS: Premier Price has apparently extended his timetable for independence.

In a recent speech, Price gave an elaborate rationale why 1972 was not the promised year. He pointedly avoided any mention of independence in 1973 and instead devoted a major portion of his address to cataloguing the economic progress achieved under his stewardship.

Each year since 1964, when the colony received full internal self-government, Price and his People's United Party have promised that independence was just around the corner. Each year, however, Britain has refused to extend a post-independence security guarantee and Guatemala has indicated that it would invade the colony if independence were granted before its territorial claim was settled.

The dispute with Guatemala reached near crisis proportions in early 1972 when the British, motivated by rumors of a planned Guatemalan invasion of British Honduras, substantially increased their garrison in the colony. Guatemala denounced the buildup, sent more troops to the border area, and sought an OAS condemnation of the British move. Although tensions have eased, the incident convinced British Honduras that Guatemala would not tolerate unilateral independence.

Given this new sober public mood, Price is not under any immediate pressure to redeem his independence promises. Under the parliamentary system in effect in British Honduras, Price need not call a general election until December 1974, and 1973 may pass without a resurgence of the independence issue. There is time, therefore, for negotiations, but thus far Guatemala has demonstrated no serious interest in a negotiated settlement. [REDACTED]

[REDACTED]

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JAPAN: Economic recovery is proceeding rapidly. During the second quarter of this year real gross national product was 8.2 percent higher than in the same period last year. This translates into an 11.7-percent upswing at seasonally adjusted annual rates when measured against the first quarter of 1972. The pace of economic growth began picking up earlier this year following an 18-month slowdown, with a sharp increase in government outlays leading the way. In recent months a rise in personal consumption has helped the recovery process, but investment in plant and equipment is still sluggish because of continued excess capacity.

[REDACTED]

\* \* \* \*

USSR: Soviet gold sales on the international market are continuing apace.

[REDACTED]

[REDACTED] proceeds from the sales help defray the cost of grain and other purchases from the West. Reports this week of Soviet gold shipments to Zurich probably represent delivery of gold sold recently and were responsible for some fluctuation in gold prices. The Soviets are reported to have sold some 30 to 35 tons in the first quarter of this year, and sales probably have continued at least at this level. Discreet handling by the USSR and by bankers probably will continue to prevent any sharp reaction in the gold market.

[REDACTED]

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CHILE: The 23-percent jump in the consumer price index in August was higher than expected, and brings the total price rise for the first eight months of the year to almost 64 percent. The August increase, which was larger than the rise during all of 1971, was due largely to higher food costs, although prices of most other items also increased. Because prices are continuing to rise rapidly this month, the cost-of-living wage adjustment promised by Allende for October could be as high as 80 percent. This will further boost the government's enormous budget deficit, which is financed almost entirely by printing new money. This deficit financing, together with refueled consumer demand, will result in formidable inflationary pressures in the months ahead. [REDACTED]

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CHILE: The government is banning beef imports until Christmas because of a severe shortage of foreign exchange. The economics minister has stated that Chile cannot afford further beef imports, which have cost the country more than \$90 million so far this year. Imports of all agricultural products during 1972 are expected to absorb almost one half of Chile's export earnings. Foreign reserves have continued to decline this year, following a \$304-million drop in 1971, and by June were \$80 million in the red. The beef ban will fuel consumer discontent, already high because of spiraling prices and spreading shortages. President Allende can be expected, however, to apply whatever cosmetic measures he can to improve consumption just prior to the important congressional elections scheduled for March. [REDACTED]

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